PRESS CONFERENCE

Mario Draghi, President of the ECB,Vítor Constâncio, Vice-President of the ECB,Frankfurt am Main, 25 January 2018

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Ladies and gentlemen, first of all let me wish you a Happy New Year. The Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council, which was also attended by the Commission Vice-President, Mr Dombrovskis.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels for an extended period of time, and well past the horizon of our net asset purchases.

Regarding **non-standard monetary policy measures**, we confirm that our net asset purchases, at the new monthly pace of €30 billion, are intended to run until the end of September 2018, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. If the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, we stand ready to increase the asset purchase programme (APP) in terms of size and/or duration. The Eurosystem will reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary. This will contribute both to favourable liquidity conditions and to an appropriate monetary policy stance.

Incoming information confirms a robust pace of economic expansion, which accelerated more than expected in the second half of 2017. The strong cyclical momentum, the ongoing reduction of economic slack and increasing capacity utilisation strengthen further our confidence that inflation will converge towards our inflation aim of below, but close to, 2%. At the same time, domestic price pressures remain muted overall and have yet to show convincing signs of a sustained upward trend. Against this background, the recent volatility in the exchange rate represents a source of uncertainty which requires monitoring with regard to its possible implications for the medium-term outlook for price stability. Overall, an ample degree of monetary stimulus remains necessary for underlying inflation pressures to continue to build up and support headline inflation developments over the medium term. This continued monetary support is provided by the net asset purchases, by the sizeable stock of acquired assets and the forthcoming reinvestments, and by our forward guidance on interest rates.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Real GDP increased by 0.7%, quarter on quarter, in the third quarter of 2017, following similar growth in the second quarter. The latest economic data and survey results indicate continued strong and broad-based growth momentum at the turn of the year. Our monetary policy measures, which have facilitated the deleveraging process, continue to underpin domestic demand. Private consumption is supported by rising employment, which is also benefiting from past labour market reforms, and by growing household wealth. Business investment continues to strengthen on the back of very favourable financing conditions, rising corporate profitability and solid demand. Housing investment has improved further over recent quarters. In addition, the broad-based global expansion is providing impetus to euro area exports.

The risks surrounding the euro area growth outlook are assessed as broadly balanced. On the one hand, the prevailing strong cyclical momentum could lead to further positive growth surprises in the near term. On the other hand, downside risks continue to relate primarily to global factors, including developments in foreign exchange markets.

Euro area annual HICP inflation was 1.4% in December 2017, down from 1.5% in November. This reflected mainly developments in energy prices. Looking ahead, on the basis of current futures prices for oil, annual rates of headline inflation are likely to hover around current levels in the coming months. For their part, measures of underlying inflation remain subdued – in part owing to special factors – and have yet to show convincing signs of a sustained upward trend. Yet, looking forward, they are expected to rise gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion, the corresponding absorption of economic slack and rising wage growth.

Turning to the **monetary analysis**, broad money (M3) continues to expand at a robust pace, with an annual rate of growth of 4.9% in November 2017, after 5.0% in October, reflecting the impact of the ECB’s monetary policy measures and the low opportunity cost of holding the most liquid deposits. Accordingly, the narrow monetary aggregate M1 continued to be the main contributor to broad money growth, expanding at an annual rate of 9.1% in November, after 9.4% in October.

The recovery in the growth of loans to the private sector observed since the beginning of 2014 is proceeding. The annual growth rate of loans to non-financial corporations increased to 3.1% in November 2017, after 2.9% in October, while the annual growth rate of loans to households stood at 2.8% in November, compared with 2.7% in October. The euro area bank lending survey for the fourth quarter of 2017 indicates that loan growth continues to be supported by increasing demand and a further easing in overall lending conditions.

The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – notably for small and medium-sized enterprises – and credit flows across the euro area.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed the need for an ample degree of monetary accommodation to secure a sustained return of inflation rates towards levels that are below, but close to, 2%.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively to strengthening the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding **fiscal policies**, the increasingly solid and broad-based expansion strengthens the case for rebuilding fiscal buffers. This is particularly important in countries where government debt remains high. All countries would benefit from intensifying efforts towards achieving a more growthfriendly composition of public finances. A full, transparent and consistent implementation of the Stability and Growth Pact and of the macroeconomic imbalance procedure over time and across countries remains essential to increase the resilience of the euro area economy. Strengthening Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing discussions on completing the banking union and the capital markets union, and on further deepening Economic and Monetary Union.

We are now at your disposal for questions.

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I have a question concerning the asset purchase programme. When you launched the programme you decided to keep the purchases as strictly according to the ECB capital key. But now it turns out that you are increasingly deviating from this as a new survey or a new calculation from the Centre of European Economic Research (ZEW) has claimed. Why is this so? Is this affecting the neutrality of the purchases?

Draghi: It's not so, it doesn't affect the neutrality of the purchases – and I'll tell you the reasons why you observe these deviations. The ECB doesn't favour certain countries over others in its PSPP purchase programme implementation. As you know, purchases are guided by the ECB's capital key, which takes into account GDP and population. Now, focusing excessively on any particular purchase period, for example on 2017 only, could result and yield wrong interpretations. The overall stock of Eurosystem PSPP holdings is the relevant metric for any assessment of the programme and not the recent purchase flows. Just to give you an example: currently the Eurosystem holdings of German securities are above the German share of the ECB capital key. This equates to the Eurosystem holdings€18 billion more in German securities than what is implied by the [German] ECB capital key share.

Of course the largest deviation from the ECB's capital key is Greece due to their ineligibility. In addition Eurosystem holdings of Portuguese securities are 1.8%, which is 27% below, compared to [the Portuguese] share of ECB capital key, which is 2.48%. These flows can differ as the design of the programme is flexible and the distribution of actual purchases often deviates from the ECB capital key. For example if we fall short of purchase targets in one jurisdiction for market liquidity reasons, then the shortfall is made up in others. This has happened since the beginning of the programme so it's nothing new. Moreover, this is particularly relevant for the process of reinvestments, where the amounts to be reinvested are sometimes distributed over three months. This can lead to temporary changes in the relative net purchase shares. In certain countries, implied purchase shares are above the capital key percentages as we don't buy the required bonds in other jurisdictions due to various programme constraints, for example eligibility criteria, issue and issuer limits, market liquidity.

So, all these adjustments reflect the programme's inbuilt flexibility and the commitment to a continued smooth implementation of the programme. Our general approach has never been changed. Our purchase shares are guided by ECB capital key as opposed to market cap[italisation], which is our reference for all other purchase programmes. Moreover comparing and finally individual jurisdictions net issuance and the actual purchases in the respective countries suggests, all other things being equal, that the downward impact of the programme on yields for countries such as Germany should be higher than on other countries.

My first question would be about your comment on the currency volatility. You said that it represents a source of uncertainty and also with regards to the implication for inflation. Now, you also talk about your strength and conviction about that inflation will turn to the targets. So I'd like to ask how much euro is already a problem in that respect, or what will have to happen for the exchange rate to become a problem in respect to inflation target.

My second question would be about your discussion on reviewing the forward guidance. The account of the meeting from December mentions that there was a mention of a need to revisit the guidance early in the year. My question is, has this discussion already started? If so, what was the basic summary of that discussion?

Draghi: Let me answer the second question first. Let me get the record straight because several members of the Governing Council were surprised by the reading of the accounts – by the effects that the reading of the accounts had on the markets and they asked me to clarify this. First of all, there is no difference between the accounts and what I said in the press conference. What I was asked was, did you discuss cutting the link in your guidance between the APP – the asset purchase programme – and inflation and what is your view on that question? I responded; we didn't discuss cutting the link. Actually in a sense, I went beyond what was in the accounts in my press conference because I said as a consequence of this continued expansion, also the component coming from the forward guidance of interest rates will gain further and further importance. This is a natural process led by the recovery. In this sense our monetary policy accompanies the recovery, as I had chance to say in a speech some time ago – but we haven't discussed the link.

Now, the excerpt of the accounts says: looking ahead the view was widely shared among members. So the Governing Council's communication will need to evolve gradually without a change in sequencing. The only discussion that took place was about the need to have a discussion. You see, my press conference went in – started going to the substance. But the actual discussion in the Governing Council was only scheduling the discussion which was to take place in the early part of this year. Well, now, that's important to clarify.

So discussion hasn't really started. We really went through the events since October to now and trying to basically assess whether something has changed. There hasn't been much of a change other than a continuing strengthening of the economy more – to some extent even more – than expected. Now, we have as I said downside risks relating primarily to geopolitical and especially foreign exchange markets. By and large, the risks to growth are balanced. Now, can we declare victory? The answer is no, not yet. Price pressures are muted, underlying inflation still doesn't show signs of any convincing upward movements. Price pressures along the pricing chain remain broadly stable and subdued. Recent data on wage growth confirms some lift-off] from its lows of 2016 second quarter, but it's a lift-off so far mostly due to wage drift, not negotiated wages. We have to look better and see whether this picks up and is confirmed.

The survey measures of long-term inflation expectations remain broadly unchanged, while market-based measures have increased to 1.76%/78%. By and large there isn't much of a change, which led us to simply restate the policy, as I've just said in the introductory statement, where basically we continue the monthly pace of €30 billion extended to run until the end of September 2018 and so on. There is no need for me to read it again, I guess. Also we went through how we judge whether progress in achieving our inflation objective has happened, has taken place. You remember we have three criteria. The inflation rate has to be on a path that reaches levels below but close to 2% in the medium term, so it's not touch and go; in the medium term. That's one important thing that several speakers have remarked today; is that our commitment to this objective remains firmer than ever. So most members reiterated the steadfast commitment to reach our objective.

The second point is that when we look at inflation paths over the coming weeks, months, years, we have to see – we'll see a range of paths but this range has to be pretty narrow. In other words, we have to be convinced, we have to have confidence in the degree of convergence. That's the other thing that we will certainly look at that. Then the third criteria is that this convergence should be self-supported. In other words, will have to do without our monetary policy support. We aren't there yet. Finally, even when we judge that adjustment has progressed towards – has progressed enough, our monetary policy will remain very accommodative. Why? Because we will continue reinvest and for – as I said in the introductory statement, for an extended period of time. Especially the interest rates will remain at the present level well past. That's of fundamental importance in our forward guidance; well past the end of our net asset purchases.

Basically, very little has changed. We have observed, however, since December that the expected path of short-term rates, interest rates has moved upward and that the exchange rate volatility has increased. We discussed some of the causes of these developments and there are basically three sets of causes. The first is the unquestionable improvement in the economy. Naturally, as I think have said many times, as the economy improves this will accompany quite nicely our monetary policy. Monetary policy will accompany the improvement in the economy in a way that the relative influence of the four pillars of our monetary policy will change and will move more and more towards reinvestments for a long period of time towards the importance of the stock of bonds as being accumulated and towards especially, as I said, the forward guidance on interest rates and the well past. So that is one cause is the improvement in the economy.

The second cause of these movements that was found is the heightened market sensitivity to perceived changes in our communication. I think that is unquestionably the other reason. Finally, however, there is a third reason which is – this relates essentially to the exchange rate- that the use of language being discussed in exchange rate developments, that doesn't reflect the terms of reference that have been agreed lastly on October 14th 2017 in the IMFC in Washington. So all this is changing.

Now, is this your question? I'm sorry, my answers have become longer and longer. I'll just apologise for that. I'll stop here. Anyway, someone else will ask this question I was meant to answer. You will see.

I have a direct follow-up question. Let us talk about the dollar weakness; that's what you probably were referring to in your last comment, right, when you answered the question. It's not very helpful to hear from certain members of the US administration that a lower dollar is something they kind of like; what's your view on that? Are we heading towards a scenario that we could call a currency war scenario? Yes, perhaps we leave it like that.

Then I have another question. You earlier said that you don't think there will be an abrupt end to QE or the asset purchase programme by September. Are you sticking to that message? Or

could you also envision to end it and then, only have the reinvestments going forward after September? Well, that's mainly it.

Draghi: Now, on your first question, first of all let me always reiterate what I always say when we talk about exchange rates. We don't target exchange rates and we say exchange rates are important for growth and for price stability. Now, certain movements in the exchange rates to the extent that are justified by the strengthening of the economy are part of nature. It's a fact of nature, so the issue is whether these other movements in the exchange rate which may be caused by the use of language that I said is not part of the terms of reference that been agreed recently, whether that has an effect on our inflation path. We look at inflation; that is our main concern. It's too early to assess whether the pass through has already taken place and what's going to be the extent of this pass through. It's pretty clear, however, that some people are questioning the extent by which pass through actually happens nowadays. It's pretty clear that very large movements in the exchange rate are bound to have a pass through.

In any event, the language that we agreed in Washington said this: we recognise that this is the communique of the 36th meeting of the International Monetary and Financial Committee in the IMF. So all the ministers and the governors there we recognised that excess volatility or disorderly movements in the exchange rates can have adverse implications for economic and financial stability. We will refrain from competitive devaluations and will not target our exchange rates for competitive purposes. I think that's my answer.

Now, the answer to the second question, yes, I said that. I said that as far as I was concerned, I said we didn't have a proper discussion and we didn't have a proper – we didn't have any discussion today at all. But I said as far as I was concerned, we’d never stop the programme abruptly. Now, here we have to distinguish between sudden stop, an extension of the programme and gradual tapering – and that's exactly the discussion that we will have. It's one part actually of the discussion that we will have and the discussion to which the accounts that you read were referring to.

Up until now in January, private sector purchases made up about a third of your asset purchases; are these proportions indicative of volumes going forward?

Second question relates to the Ombudsman's recommendation about the G30. Are you going to accept that and give up your membership; why or why not?

Draghi: First, the answer to the second question; we've received the letter of the Ombudsman – the work of which, by the way, we appreciate greatly – and we will respond in due time. There is a procedure in place: we'll assess the letter, we'll assess the comments and then we'll respond.

On the first question, these are volumes and they follow also principles of market neutrality and so it's difficult for me to answer your question now. One should not look at monthly purchases because they may reflect temporary market conditions. We have a certain size that will develop across the programme.

Just to revisit your answer to Annette's question, I think the comment on the purchases not stopping suddenly was widely viewed at the time as an indication that past September, there would be a gradual tapering. Now you seem to be saying that there needs to be a debate on that and there may be either a debate on doing that or an extension, which I think we already

know there's been an extension. So if it is maybe possible to just clarify that then I think that would be helpful.

For my second question, how important do you think the debate that some of the unions in Germany such as IG Metall are having now on pay negotiations? Could we see a situation where, if IG Metall does win a favourable deal on pay, that triggers broad increases in pay across the eurozone economy? Or are those sorts of pay increases that we're talking about in certain sectors in Germany confined to places that are doing very well in Europe?

Draghi: On your first question, when I said that, some people actually understood differently; they understood that it would be an extension. Others, as you probably did, there would be a gradual tapering. But others, later on, there was a comment as far as I'm concerned this programme could actually stop immediately and markets reacted as if that were a serious contingency. I just want you to distinguish between the three choices, the three options. Then you can go back to exactly what I said when you asked and give some probability to which one of the three is probably the surer to happen.

Now, the other question is, wage negotiations belong entirely to social partners. We observe what's happening from a monetary policy angle, where we consider a wage growth – nominal wage growth – as a very convincing sign of future inflation convergence to our objective. Clearly, we don't want to encourage any sense – just we look at that with the detached eyes of the policymakers. You asked me whether it's limited to Germany or will spread to other countries. This will depend very much on the conditions of the labour market. Clearly in Germany, labour market is experiencing the pretty tight conditions. In other countries the labour market's slack is still pretty wide. Also it depends on what sort of bargaining strategies the social partners have. For example in some countries, even though the labour market is tight, the unions are not negotiating for higher wages immediately but rather for job security.

There is plenty of evidence that even though employment's gone up a lot, a lot – much of it is of a temporary, part-time quality. So we have to assess what are the different negotiating strategies before we can conclude that one single nominal wage negotiation in one country will actually spread its effects to the rest of the euro area.

Two questions. One is on negative rates. There are just less than $10 trillion of assets in negative yields and markets are in unchartered waters and have been for a long time. Do you see any financial stability risks stemming from such monetary policy being very accommodative for a long time?

Then if you could expand more on something that you said on fiscal policies, on rebuilding fiscal buffers where government debt remains high. There is a big discussion in Italy, as everyone knows, on debt.]

Draghi: I will answer the second question, but first let me give the floor to the Vice President on the financial stability risk caused by the negative rates for a long time on lots of assets.

Constâncio: Yes, as the President said, negative rates have been in place for quite some time and we see a situation where no one can talk about, say, asset price bubbles in the euro area. We have overstretched valuations in some places in what regards commercial real estate or high-yield bonds but nothing else. In what regards the normal corporate bond market, using different models to calculate the fair value, we see that the prices in the market are indeed close to the fair value. The same is true about housing prices. In spite of prices of housing being increasing recently, nevertheless the analysis of fundamental values showed that this is in line with the fundamentals. To quote some numbers, prices are increasing around 4%, prices of housing. Between 2003 and 2006 they were increasing by 7%. Credit to mortgages, credit to house purchases is increasing at 3.3% - in the period of 2003- 2006, was increasing at 10%.

So there is indeed no general situation of overvaluations on average in the residential properties. Of course in some countries, in some regions of some countries, yes, there are price increases that can be seen as excessive. But as you know, several countries have taken macroprudential policies of a regulatory nature to face those excesses. That's the proper way to go and as you know, now we have also as ECB responsibility in what regards macroprudential policy. It's being applied, it's being used and there is indeed no general situation of overvaluations.

The effect on banks of negative rates, also we have shown several times that taking into account all the effects of our policies, that on average they have been favourable to profitability – which by the way has been increasing. The banks have been increasing profitability; still low, yes, but increasing, which again shows that the policy of negative rates has been absorbed by the banking sector and has not created a problematic overall situation to financial stability.

Draghi: On your first question, the need to rebuild fiscal buffers – part of this expansion is cyclical and at some point will stop. Interest rates some time in the future will stop being so low. At that point, all governments will want to have policy space – especially in case the stopping of the cyclical expansion is not going to be benign. They will want to have policy space; they have to recreate policy space. That's why budget consolidation now, when the time is good, is actually favourable and it's a good thing to do. We are saying that not only with respect to Italy, but actually it's all over , with few – very few exceptions, what's happening now is that in fact one sees that there is no budget retrenchment or even there is budget expansion at the time of a solid expansion in the economy and with very low interest rates.

My first question, well, actually they're both about communication. The first one is, how do you feel about the ECB's communications since the beginning of the year, not only from the headquarters but also from the members of the Governing Council? Do you see any room for improvement and in what areas?

The second one is communication from the United States: what level of concern within the Governing Council was there today –and if yes, why actually today – or have you spoken to anybody in the Governing Council about those comments? How do they feel about a possible change in US policy?

Draghi: Answering your second question first; yes, there was concern, several members expressed concern and this concern was also – in a sense was broader than simply the exchange rate. It was about the overall status of international relations right now. So the answer to your question is yes; we are concerned. There is also an additional concern that the Governing Council and introductory statement itself in a sense hints at, if all this were to lead to an unwanted tightening of our monetary policy which is not warranted, then we will have to just think about our monetary policy strategy. This was something that has actually been said in the introductory statement, it's also been expressed.

You asked me about the various communications; well, I think you see the same thing in the other jurisdictions as well. But let's look at the positive angle of this. All the communications that you've seen since December have in common three characteristics that were reiterated today. First of all, all of them are based on a steadfast commitment to the objective of the 2%, close but below 2% in the medium term. Second, no communication whatsoever questioned the sequence whereby interest rates would stay at the present level well past the end of the net asset purchase programme. Third, the well past was always reiterated and emphasised. I think all three communications. Then of course you have nuances which were picked up by the market. But we are in the range of normal differences of views.

Some investors are pricing in an interest rate increase already this year. Could that be in line with the ECB's promise to only raise rates well past the end of the net asset purchases?

My second question is on the euro: you've mentioned about the volatility and how that's a concern. At its current level, do you think it's still reflecting the fundamentals? Or do you think it's exaggerated? It's 1.25 right now.

Draghi: Well, I can answer the first question. Not sure I can answer the second question. But the first question is that based on data, on today's data and today's projection, I think I see very few chances at all that interest rates could be raised this year.

The second point is whether this squares with fundamentals or not. Rather than asking this question, which is really very difficult, we should ask; is this movement being produced? In other words is it endogenously produced by the strengthening of the economy, by an uptick in inflation or in wages? Or is it being produced by statements? Or is it being produced by monetary policy elsewhere? Is the difference between the monetary policy cycles and the recovery cycles in the various economies, the difference, does this difference grant such movements in the exchange rates or not? These are the questions that we should ask at this point in time.

The European Ombudsman has asked you to leave your membership in the group of 30 Club. It says literally that your membership in this body could give rise to a public perception that the independence of the ECB could be compromised; what do you think about that?

Draghi: I answered this question before. We have received the letter which was published and we are assessing it and we will respond according to the existing procedure. By the way, incidentally the Ombudsman also acknowledges that there is no evidence that these meetings could have directly influenced or have had an adverse impact on the ECB's supervisory tasks. She also acknowledges that the ECB must have dialogues with market participants and also acknowledges that the ECB has a robust system of safeguards in place to manage its contacts with the financial sector. But as I said, I don't want to discuss further because we are in the course of assessing this letter and preparing our response.

Since you are outlining today that the sequencing of exit strategy of ECB is written on marble, all the

Draghi: Cast in stone, one member said today.

Écrit dans le marbre in French.

Draghi: Écrit dans le marbre.

All the debate should focus on the speed of execution of this programme. In the coming months, as you said before, there are normal differences of views between Governing Council members. Would you think these differences could deepen and make the debate within the Governing Council more difficult? For you, you are then confronted with this task to find the right solution for the exit strategy, which is something totally new for euro area with such a short history.

My second question, bottom line of today's message, you will give us rendezvous on 8th March, when ECB will get a new fresh forecast on prices developments. So you maybe then will give an answer to what the minutes in the previous December meeting stated; that the forward guidance should be revisited early in 2018, so would it be March?

Draghi: Now, about the first point, I can only express a wish here. I don't think that the differences between the various members of the Governing Council are as substantive as they were on other occasions. As a matter of fact, they are much less substantive. You remember the three elements: confidence in the convergence of our inflation path to its objective, but also since we don't see now in the data much of inflation, it's patience and persistence in our monetary policy accommodation. The three elements combine themselves in the various members of the Governing Council's view of the world. That's what we are talking about; some of them are a little more confident perhaps because they live in jurisdictions where inflation and developments are a little more encouraging, or the labour market conditions are tighter. They bring with themselves the information set they have. But we are not talking about deep existential differences.

Going back also to one question: where however we have to be careful is that when – there may be differences about when to say certain things. For example we can all agree about certain things, but we may disagree about when to move forward. That's where the market wants to be informed clearly because markets of course have expectations not only about the path. The path is the policy path, but also about the announcement dates, the timelines and that's where discipline is needed. As I was saying, this in a sense is a second degree of importance difference with respect to the first. As a matter of fact, the overall situation doesn't justify profound existential differences at this point in time.

Now, your second point was, in March we'll have projections and then we'll assess really how things stand at that point in time.

I would like to pose another question on the exchange rate. You already said that probably your communication has an effect on the exchange rate. I wonder how large do you believe is the effect of your own communication on it and if you see the danger that you react to something in the end that you created yourselves and some kind of vicious circle in the end.

Draghi: Excuse me, could you explain me what you meant?

Okay, you already said that you believe that the communication of the ECB may have an effect on the exchange rate. You also said that…

Draghi: No, I'm sorry. No, I said that the exchange rate has moved in part because of endogenous reasons; namely the improvement in the economy, mostly improvement in the economy. In part for exogenous reasons that have to do with communication, but not by the ECB, but by someone else.

This communication, not the ECB communication, but someone else's communication doesn't comply with the agreed terms of references; that's what I said.

Okay, I understood, but you cannot deny that a lot of people in the market believe that also the ECB communication moved the exchange rate, so maybe you can comment on that.

Draghi: I can comment on that, certainly. There is a difference between designing monetary policy with a view to pursuing price stability and your objective, that you have to because of your mandate. That design of monetary policy may well have consequences on the exchange rate, but these will be indirect consequences. We don't target the exchange rate. Different is when I go and sit – well, not me; someone else – goes and says that basically, a good exchange rate is good for exporters and it's good for the economy and it's good. That means it's targeting the exchange rate. That agreement, subtle as you want, has been in place for decades now whereby policymakers, of course if you do take monetary policy decisions, they may have consequence on the exchange rate on both sides– on all sides of our monetary policy jurisdictions, and it's both sides of the ocean but also other countries as well. But the explicit targeting of the exchange rate is something that really goes back many, many years ago before these terms of reference were agreed.

Why did you choose September and not December or June as a month to finish this QE programme?

Second question: commodities are listed in dollars so when monetary policy normalise in the eurozone, the euro appreciates but commodity price grow more in proportion of this. With them, the general price, but this is a bad inflation. It's inflation of a sign, it's inflation of an easy dollar. Is that correct, that this way a restrictive monetary policy in Europe end up to free the price further, instead cool them down?

Draghi: Well, the answer to your first question is basically, when we recalibrated our net asset purchase programme last October, we had to weigh, very much as we are doing today, confidence versus patience and persistence. We had the discussion about that, whether it should be six months or nine months, whether it should be 30 or 40 or 20 per month. After all analysis and models and discussions we came out with these figures of 30 per month until September. It's a matter of educated judgement based on data, on projections of inflation, on what is the – in a sense the best design that would produce the convergence in the safest way to our path and also in the most reliable way to our objective.

The answer to the second question: we are trying – that's why what you say is absolutely right; you have that as a possibility. But that's why in defining our objective of inflation we use several measures. We use headline inflation, which includes these effects but we also use underlying inflation which excludes food and energy. Then we have other definitions of inflation as well. All this, mind, our objective is defined in terms of headline inflation. But to gain sufficient confidence that the convergence towards our objective is in the medium term, is stable and is self-sustained we need to have evidence also from the other definitions of inflations. In other words, data that don't change because say the market for a certain commodity all of a sudden changes, supply or demand change.

The first point is, you've talked a lot about the euro today and its potential effects on inflation. On the other hand, we also have an oil price; it has risen significantly and it is way above what

was assumed in the ECB projections in December. Don't you think that these two effects could compensate each other

The second one is a follow-up on your forward guidance on rates; you have stressed the fundamental importance of the well past. You already said that there are few chances that the interest rates will rise this year. Don't you think that there is a need for more clarity on this well past? For example Bundesbank President Weidmann said in an interview that expectations for interest rates hikes in mid-2019 are more or less in line with this forward guidance. Is that a common view in the Governing Council?

Draghi: Well, based on today's data that's the answer. We always think and have our discussions and deliberations based on the data. To this extent, we are data dependent and basically, that's what the data tell us. I'm sorry, your first question was?

Oil prices.

Draghi: On oil price, yes, indeed; increase in oil prices may be compensated by appreciation in the euro, although it's not easy to understand exactly the timing of these compensations because oil prices have gone up, gone down. The time that it takes to pass through is variable but if you take just the oil price and you translate it in the exchange rate, of course it does compensate that – which doesn't mean by the way that this doesn't imply that we sort of accept a certain level of exchange rate as a good thing or a bad thing. Just I'm answering to your questioning in sort of abstract terms.

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